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State of Connecticut
Discussion Materials

August 17, 2018

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I. Executive Summary

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Executive Summary

Connecticut ("Connecticut", "CT" or the "State") and its municipalities have capital and other assets of significant value that could be unlocked and used more efficiently to shore up its underfunded pensions and mitigate persistent budget imbalances

- The State has significant capital assets on its balance sheet, including large infrastructure assets such as roads, bridges, railways, buildings, and even the lottery system
- In addition, there are many municipal-owned water utilities that could have significant value
- We have developed a set of transactions that could be pursued individually or collectively to unlock value that could be used to relieve pressure on state and local budgets

Asset Transaction	Benefits and Considerations
Contribute the **lottery system** to the State's pensions	▪ Recent precedent for similar transaction in New Jersey ▪ Given the lottery net income currently supports the general fund, the benefit of contributing the lottery (taking into account the resulting reduction of the annual required contribution) would need to be offset against the loss of lottery revenues over time
Increase rates of **municipal water systems** to generate equity value to transfer to pensions	▪ The State could consider incentives to motivate member municipalities to raise water rates and contribute these assets to their own underfunded pension systems ▪ Could shore up local budgets and reduce reliance on State aid ▪ Complex transactions given number of member municipalities
Sell **real estate** and lease back from private owner	▪ Private operator could enhance the value of the State's real estate portfolio ▪ Could provide incremental property tax revenues, as properties previously owned by the State may no longer be tax exempt

These measures should be considered in concert with other fiscal measures to develop a cohesive and long-term plan that addresses structural deficits and provides the State flexibility to grow and invest in its economy

Note: Values of monetization opportunities are highly illustrative and subject to material change. Please review the entirety of the presentation for important information about assumptions used in estimating the value of each opportunity.

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Overview of Monetization Mechanisms

There are a number of methods by which the State and its municipalities can monetize their capital assets

	Structured Asset Transfer ("In Kind")	Concession / Lease	Full Privatization or Sale/Leaseback
Description	▪ Transfer ownership of assets to pension systems at fair market value to satisfy a specified amount of pension contribution requirements ▪ Contract with a newly created private or public operating company to operate the assets for the benefit of the plans	▪ Grant a long-term lease to a third party who will operate and maintain the asset in exchange for the right to collect revenues ▪ May include up-front cash consideration	▪ Sell assets, with full ownership rights granted to a private entity ▪ To the extent necessary, assets can be leased back to the government for their use
Benefits	▪ Cost-effective way of immediately reducing pension funding obligation by utilizing existing assets ▪ Consistent with Section 180 of the recently passed 2018-2019 State Biennium Budget, which stipulates the creation of a capital asset trust to benefit the State's pension systems ▪ Option to retain existing employees under the same employment contracts as exist currently	▪ Private entity responsible for payment of operating, maintenance and capital expenditures ▪ Depending on transaction structure, may provide State/municipality with longer-term, stable cash flows ▪ State/municipality would run a competitive bidding process, which may increase value	▪ Private entity responsible for payment of operating, maintenance and capital expenditures ▪ Enables State/municipality to immediately monetize assets for upfront consideration, which may be used to repay obligations, fund pension contributions or retire debt ▪ Allows assessment of property taxes on previously tax exempt property, helping shore up municipal budgets
Considerations	▪ May require changes in tax regulations to facilitate transaction ▪ Must be done on an arms-length basis with appropriate protections both for the State and the pension systems	▪ Reduced public control over assets ▪ May not realize upside from potential long-term asset appreciation	▪ Loss of operational control of assets ▪ Purchaser retains net operating profits and long-term asset appreciation

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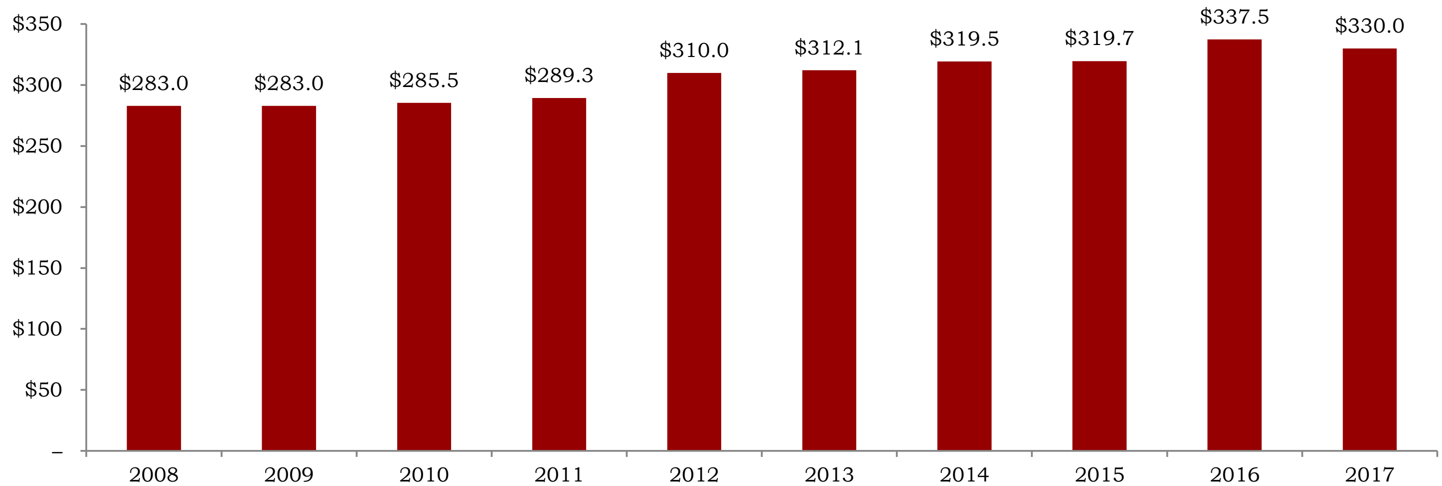
II. Lottery System Contribution

Contributing the Connecticut Lottery System to the State's Teachers' Retirement System

Connecticut has a lottery system (the "CT Lottery") that produced $330 million of net revenues for the general fund ("GF") in 2017. The CT Lottery could be contributed in kind to the State's Teachers' Retirement System ("TRS") to offset its underfunded liability and reduce the State's annual required contribution ("ARC")

- The CT Lottery has generated a steady amount of net income over the last 10 years, which has been contributed to the GF to fund public services

Historical CT Lottery Payments to the State GF ($ millions)(1)



The CT Lottery's payments to the GF have grown steadily with a CAGR of 1.7% between 2008-2017

- As recommended by the Connecticut Commission on Fiscal Stability and Economic Growth (the "Commission") in its March 2018 report, a contribution of the CT Lottery to TRS could be structured as follows:
  1. The state would contribute the CT lottery cash flow stream to TRS at fair market value;
  2. TRS's funded level would increase by the fair market value of the CT Lottery asset, thereby reducing the net pension liability;
  3. As a result of a reduction in TRS's net pension liability, the State's ARC would decrease;
  4. In the first half of the 30-year concession, total costs to the State would be reduced in excess of the foregone lottery cash flows due an improvement in TRS's unfunded liability

1 Source: 2017 Connecticut Lottery Corporation Annual Report. Under Connecticut General Statute 12-812(c), the amount paid by the Connecticut Lottery Corporation to the State General Fund should represent the balance of the lottery fund that exceeds prize payments, operating expenses and approved reserves.

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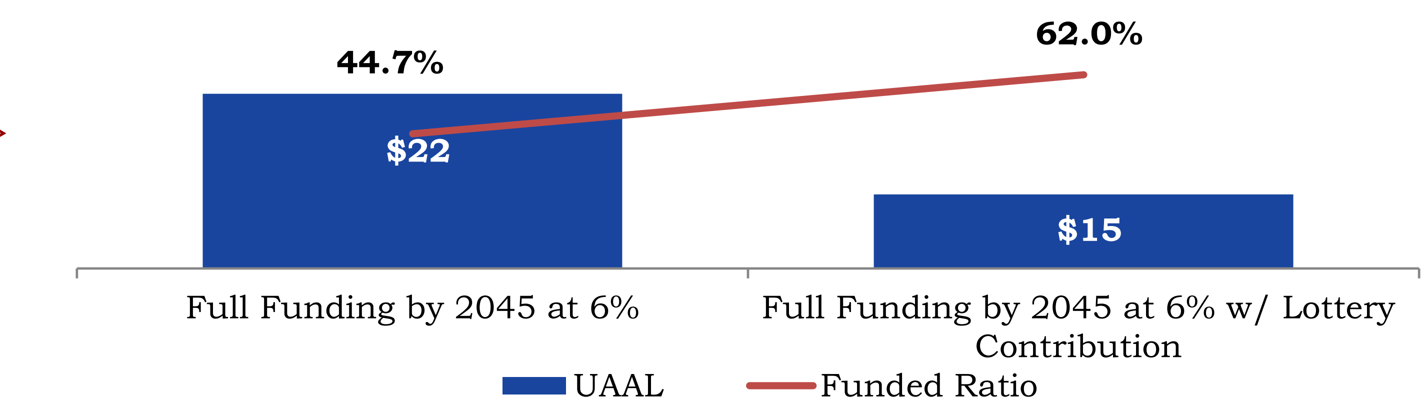
Lottery Contribution Impact on the State's Pension Systems Unfunded Liability

A contribution of the CT Lottery to TRS could reduce TRS's unfunded liability by approximately $7 billion

- A reduction in the UAAL of TRS would also result in a reduction in future State required pension contributions
  - Such reductions could be structured to achieve other objectives, including reaching budget neutrality or further increasing pension plan funding levels, alongside adjustments to pension system contributions
- The following table shows the impact on TRS's unfunded liability assuming the Commission's preliminary $7 billion valuation for the CT Lottery
  - The Commission's analysis evaluates the impact on the TRS unfunded liability following the reduction of the system's discount rate to 6% and a re-amortization of the unfunded liability to reach full funding by 2045

Note that the starting UAAL shown here does not represent TRS's current stated UAAL but rather the UAAL following a reduction in the discount rate to 6% and a re-amortization of the unfunded liability to reach full funding by 2045

FY 2019 TRS Pension Liability and Funded Ratio:
Full Funding by 2045 at 6% vs. Full Funding by 2045 at 6% with Lottery Contribution ($ in billions)[1]



1 Connecticut Commission on Fiscal Stability and Economic Growth, The Pew Charitable Trusts.

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Lottery Contribution Impact on the State's Annual Contributions to TRS

The Commission's analysis suggests that the lottery contribution would provide net present value savings of $1.2 billion to the State's General Fund over the first 15 years of the concession and would be only $196 million dilutive over a 30-year period

FY 2020 – 2049 Annual Change in State Contributions to TRS ($ in millions)[1]

Fiscal Year	State Contributions to TRS w/out Lottery Contribution	Adjustments: CT Lottery Net Proceeds	Adjustments: Increase / (Further Reduction) in ARC	State Contributions to TRS w/ Lottery Contribution	Present Value of Increase / (Further Reduction) in ARC
2020	$1,428	($371)	($7)	$1,049	($7)
2021	1,480	(383)	(6)	1,091	(5)
2022	1,532	(396)	(2)	1,135	(1)
2023	1,821	(406)	(232)	1,182	(184)
2024	1,883	(416)	(233)	1,233	(174)
2025	1,945	(427)	(233)	1,285	(165)
2026	1,992	(437)	(215)	1,340	(143)
2027	2,040	(448)	(195)	1,396	(123)
2028	2,089	(458)	(174)	1,456	(103)
2029	2,139	(469)	(152)	1,518	(85)
2030	2,190	(482)	(127)	1,581	(67)
2031	2,243	(495)	(102)	1,646	(50)
2032	2,297	(509)	(74)	1,714	(35)
2033	2,352	(523)	(45)	1,784	(20)
2034	2,408	(537)	(13)	1,857	(6)
2035	2,466	(552)	20	1,934	8
2036	2,525	(567)	55	2,013	20
2037	2,586	(582)	93	2,096	32
2038	2,648	(597)	132	2,183	44
2039	2,711	(612)	174	2,274	54
2040	2,776	(624)	219	2,371	64
2041	2,843	(637)	266	2,472	74
2042	2,911	(650)	316	2,578	83
2043	2,981	(663)	369	2,687	91
2044	3,053	(676)	425	2,801	99
2045	1,431	(689)	1,103	1,845	242
2046	864	(703)	703	864	146
2047	892	(717)	717	892	140
2048	921	(731)	731	921	135
2049	951	(746)	746	951	130
Total	**$62,396**	**($16,505)**	**$4,259**	**$50,150**	**$196**

Benefits:

- Provides a dedicated funding source for TRS, which is severely underfunded and currently poses a significant risk to the State's credit rating and ability to raise low-cost debt
- Replaces a portion of the current stream of cash flows coming from the State, which is subject to annual appropriations, with a guaranteed stream of cash flows from CT lottery. This locks up those cash flows, ensuring TRS can invest them alongside other plan assets and generate compounding interest
- Generates a nominal $1.8 billion or discounted (at 6%) $1.2 billion of savings over the first 15 years, which the State could use to invest in pro-growth initiatives and expand the economy

1 Connecticut Commission on Fiscal Stability and Economic Growth, The Pew Charitable Trusts.

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III. Public Water System Monetization

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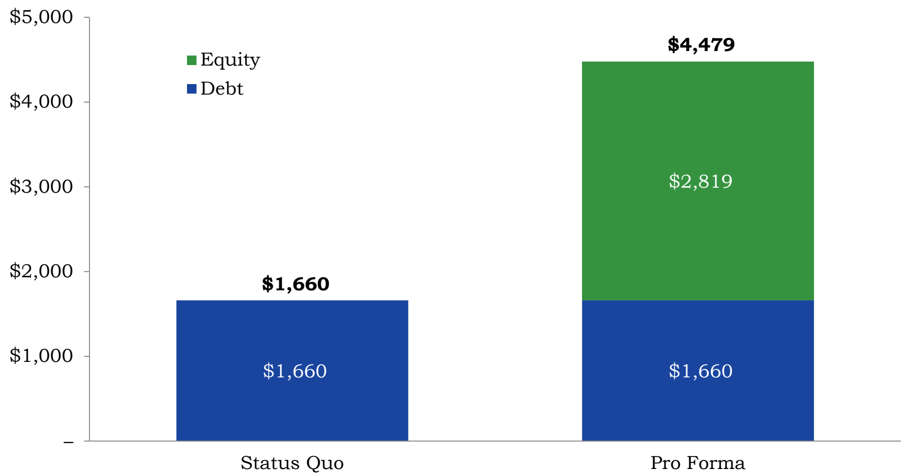
Maximizing Value of Municipal Water Systems

Connecticut's municipalities could increase the rates of their public water systems to generate equity value from the assets and subsequently transfer ownership of the systems to their own underfunded municipal pension systems

- Unlike privately-owned water systems, municipal water systems are not subject to rate regulation from Connecticut's Public Utilities Regulatory Authority ("PURA")(1)
  - — Despite being regulated, private water rates are 49% higher than municipal water rates(2)
- Given municipal water systems are public instrumentalities, they are engineered to break even after debt service(3)
  - — If the municipal water systems were to increase their rates to match those of privately-owned systems, equity value would be created where none exists today, making them more attractive assets for the pension systems to take on given the assets' ability to generate a return on equity ("ROE")
- As shown below, if the above actions were taken by the South Central Regional Water Authority ("RWA") and the Metropolitan District Commission ("MDC") – Connecticut's two largest municipal water systems that serve nearly 30% the State's population(4) – the State may be able to generate $2.8 billion of equity value(5)

Aggregate RWA and MDC Capitalization – Status Quo and Pro Forma ($ millions)(5)



	MDC	RWA
Rates		
Current Residential Rate	$2.770	$3.942
Average Private Res. Rate	$4.436	$4.436
% Rate Increase	60.1%	12.5%
Pro Forma Capitalization		
Debt	$1,118	$541
Equity	2,615	204

Note that MDC recently hosted a public hearing to increase its water rates from $2.77 to $3.15 as part of its 10% budget increase. However, this rate increase remains below the proposed increase used in the illustrative analysis

1 Private water systems submit their rates for approval to PURA per Connecticut General Statute.
2 Comparison of residential water rates among the top 15 public and private systems. Excludes sewer rates. See the Appendix for additional information.
3 For example, rates for South Central Regional Water Authority "shall be established so as to provide funds sufficient in each year" to cover the systems' expenses, including debt service on bonds. See CT Special Act 77-98 Section 14 concerning the South Central Connecticut Regional Water Authority.
4 Per CT Department of Public Health: Public Water System Lists. RWA and MDC are controlled by and serve a conglomeration of municipalities neighboring New Haven and Hartford, respectively.
5 Assumes an 8% ROE. See the following page and the Appendix for additional information and assumptions.

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Generating Return on Equity

The estimated equity value for RWA and MDC is based on an ROE that is in line with other private water systems in Connecticut

- As discussed on the previous page, many of the private water systems in Connecticut face rate regulation tied to an ROE threshold (i.e. the rate they can charge is based on meeting an ROE target)
  - The estimated $2.8 billion of equity value for MDC and RWA assumes an 8% ROE target. This target is based on a reasonable return expectation for public pensions and, as shown below, is below private operators' returns
  - However, as shown below, RWA's pro forma capitalization would remain more levered than other private operators in Connecticut, implying that RWA may need to formulate a plan to pay down its debt over time
- Certain considerations require further diligence, including any potential tax implications resulting from transferring the assets (including the transfer of state-subsidized debt) to municipal pension systems, as well as the ability of the water systems to continue raising low-cost debt through the State Revolving Fund

Pro Forma RWA and MDC Capitalization Compared to Historical Rate Cases[1]

	Capitalization		Cost of	
Water Company	**Debt %**	**Equity %**	**Debt**	**Equity**
Connecticut Water	54.3%	45.7%	5.7%	9.8%
Aquarion	48.5%	51.5%	5.2%	9.6%
Hazardville	46.0%	54.0%	6.5%	9.6%
Average	**49.6%**	**50.4%**	**5.8%**	**9.7%**
RWA	72.7%	27.3%	4.8%	8.0%
MDC	30.0%	70.0%	2.6%	8.0%

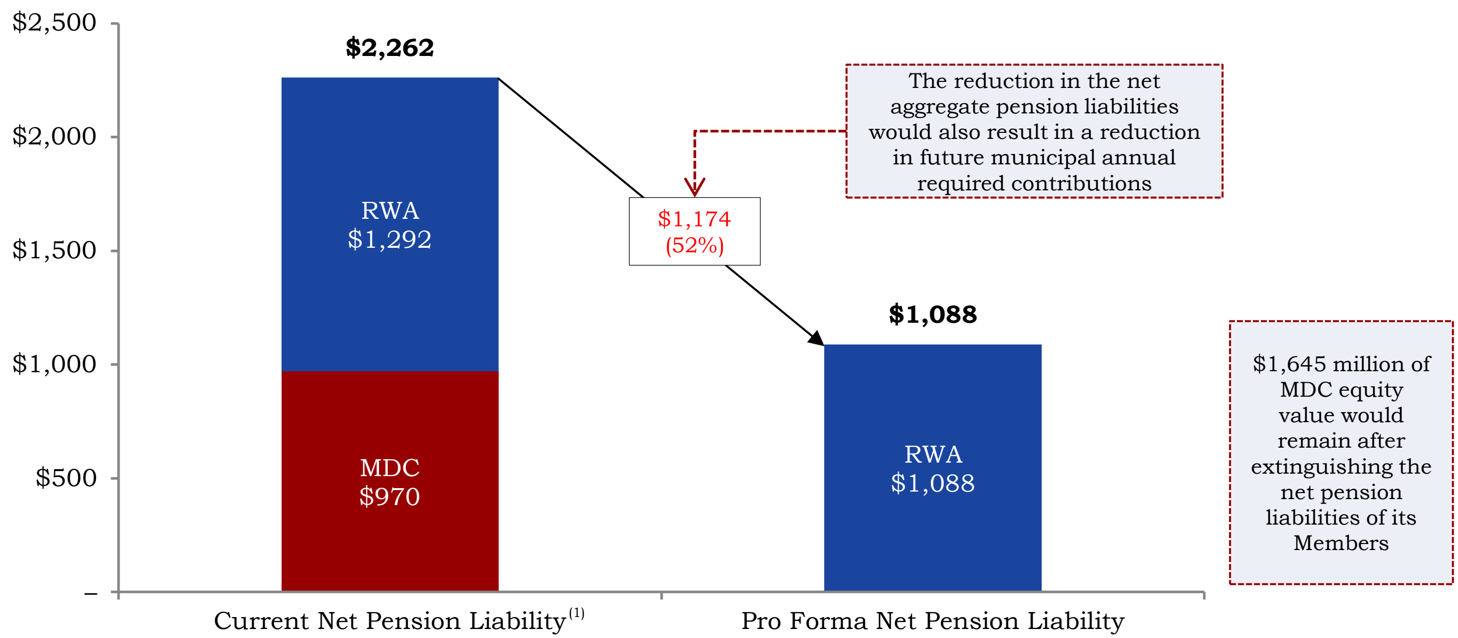
1 Source: CT PURA rate case filings. Approved returns and capitalizations per final decision in the original rate case filing for each company (July 14, 2010 for Connecticut Water; September 24, 2013 for Aquarion; and October 26, 2016 for Hazardville). Does not incorporate any subsequent Water Infrastructure and Conservation Adjustments ("WICA").

Water Systems' Impact on the Municipal Pension Systems

The municipalities that currently operate the MDC and RWA systems ("Member Municipalities") could consider contributing these assets to their own underfunded pension systems in order to shore up local budgets and reduce reliance on State aid

- Given these assets are owned by municipalities, any transaction would necessarily involve local authorities and may require the State to create incentives for the municipalities to seek such asset transfers
- The net pension liability figures shown below exclude the Member Municipalities' proportionate share of the net pension liability for TRS
- As shown below, MDC could potentially extinguish all of its Members' net pension liabilities with the equity value generated from a rate increase
  - MDC could potentially be incentivized to contribute the remaining equity value in the system to reduce its Members' proproportionate share of the TRS UAAL

Member Municipalities' Net Pension Liability Balance ($ millions)



1 Net pension liability per annual reports of towns and cities that MDC and RWA serve. Excludes State's proportionate share of TRS. Does not include OPEB UAAL.

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IV. Real Estate Value Maximization

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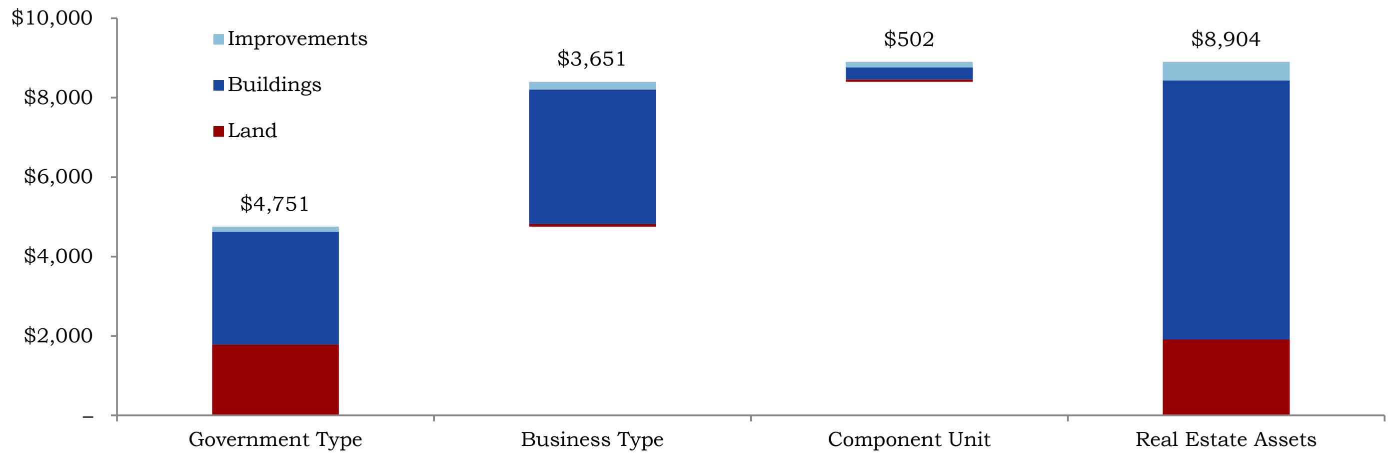
The State May Be Able to Unlock Significant Value From Its Real Estate Assets

Of the State's $21 billion of capital assets on its balance sheet (net of accumulated depreciation and gross of related debt), $8.9 billion consists of real estate assets (land, buildings and improvements thereon)

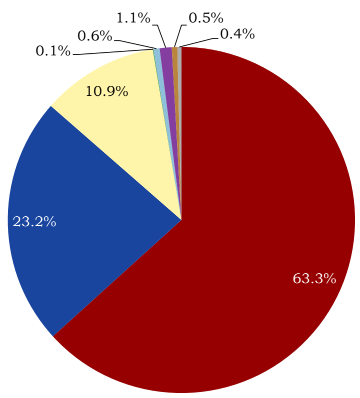
Assets related to real estate totaled $8.9bn as of June 30, 2017, or 43% of the State's $21 billion of total net capital assets.[1] Note that the State has $15 billion of debt related to its capital assets. Additional diligence and information is required to determine the allocation of debt to real estate assets in particular

Real Estate Capital Assets ($ millions)[1]



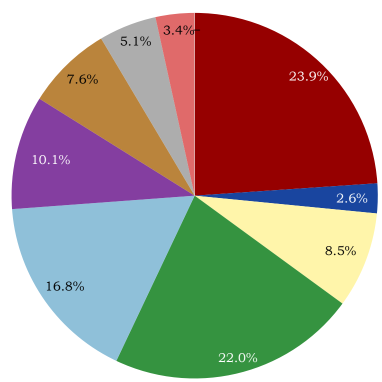
A majority of the State's Gov't Type land is categorized under Transportation, presumably relating to highways and other infrastructure. The next largest category is Conservation and Development. Section 23-8 of the Connecticut General Statutes requires the State and its partners to protect 21% of the State's land by 2023. The State has currently fulfilled 80% of its 320,576 acres portion of that goal[2]

Breakdown of Gov't Type Land by Function[1]



Total = $1.8bn

Breakdown of Gov't Type Buildings by Function[1]



Total = $2.9bn

Transportation | Conservation and Development | General Government
Education, Libraries, and Museums | Corrections | Judicial
Regulation and Protection | Health and Hospital | Legislative

1 2017 CT CAFR. All figures net of accumulated depreciation and gross of related debt.
2 Source: Department of Energy & Environmental Protection Comprehensive Open Space Acquisition Strategy: 2016-2020 Green Plan.

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Sale-Leasebacks of State-Owned Buildings Could Provide Value to Both the State and Its Municipalities

Sale-leaseback transactions could generate upfront cash proceeds for the State and replace payments in lieu of taxes ("PILOTs") to municipalities on previously tax-exempt properties with a full payment of property taxes

- There is precedent in other jurisdictions for real estate sale-leasebacks, such as:
  - The State of California consummated a similar transaction in October 2010 when it sold 11 state office properties for $2.33 billion to Hines and Antarctica Capital Real Estate LLC, resulting in more than $1.2 billion for its general fund and $1.09 billion to repay bonds on the buildings[(1)]
    - The terms of the transaction included a 20-year lease at predetermined rates and the State of California was relieved of all maintenance and operational responsibilities
    - The State of California received more than 300 bids for the portfolio, suggesting that there may be substantial interest for assets of this type
  - The State of South Dakota recently completed a 30-year term sale-leaseback for 118 state-owned buildings, which had generated upfront net proceeds of $184 million[(2)]
    - The state used the upfront proceeds to purchase an annuity to make lease payments and an excess of $12 million for building and repairing 18 structures throughout the state
- The Office of Policy and Management's ("OPM") Inventory of State Property indicates that 10% of the State's buildings, and 14% of the State's buildings specifically located in Hartford, are not fully occupied
  - A private operator may be able to enhance the value of these assets through active portfolio management

Connecticut State Owned Buildings (millions of net usable sq. ft.)[(3)]

	Total State Owned			State Owned Located in Hartford		
Structure Classification	Total Sq. Ft.	% Not Fully Occupied	% Sq. Ft. Unoccupied	Total Sq. Ft.	% Not Fully Occupied	% Sq. Ft. Unoccupied
Other	21.8	12%	9%	1.0	9%	4%
Education	7.8	6%	2%	0.2	0%	0%
Office	4.3	11%	1%	1.5	18%	1%
Residence	4.0	15%	3%	0.0	–	–
Court	1.9	2%	0%	0.4	–	–
Hospital	1.0	4%	0%	0.1	35%	0%
Maintenance/Repair Shop	1.4	0%	0%	0.0	–	–
Laboratory	1.2	8%	7%	0.1	100%	90%
Sports/Gymnasium	1.2	7%	1%	–	–	–
Military	0.5	–	–	–	–	–
Library	0.8	14%	3%	0.1	–	–
Total	**46.0**	**10%**	**5%**	**3.4**	**14%**	**4%**

Additional diligence and information is required to determine use of structures classified as "Other" within the Inventory of State Property, as this category accounts for the largest proportion of the State's buildings and is materially unoccupied

Nearly 35% of the State's buildings purposed for office use are located in Hartford, 18% of which are buildings not fully occupied (though only 1% of total sq. ft. of Hartford office space is unoccupied)

1 State of California Department of General Services October 11, 2010 press release.
2 Rapid City Journal, "Money out of nothing," dated January 15-16, 2017.
3 March 2016 – Inventory of State Property – State of Connecticut – Office of Policy & Management. Excludes buildings to be demolished in the next two or five years, on or eligible for historical registry, and without reportable net usable square footage. To be conservative, occupancy is calculated using the higher end of estimated occupancy ranges, and when no occupancy rate is provided, it is assumed that the building is 100% occupied.

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V. Appendix

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Appendix A: Comparable In-Kind Contributions

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New Jersey Lottery Contribution

- In July 2017, New Jersey transferred its lottery enterprise, including its net proceeds, to three of its retirement systems for a 30-year term
  - The contribution was effectuated by the Lottery Enterprise Contribution Act (the "Act") passed by the legislature and a Memorandum of Lottery Contribution ("MOLC")
- The contribution represented the strongest commitment to pension funding the State could possibly make without a constitutional amendment
  - In Burgos v. State,[1] the State of New Jersey Supreme Court ruled that state contributions to its retirement systems are subject to annual appropriation and that a multi-year, statutory, contractual commitment to a schedule of pension contributions is not enforceable under state law
  - In contrast, any termination of the lottery contribution could implicate the exclusive benefit rule of the Internal Revenue Code, which requires the assets of the pension plans to exist for the exclusive benefit of their members in order for the pension plans to qualify for favorable tax treatment
- The lottery contribution also had a number of additional benefits, including:
  - Immediately improved the state's aggregate statutory funded ratio from 45% to 59%
  - Provides budget neutrality for first five fiscal years with a manageable impact thereafter
  - According to former state treasurer, Ford Scudder, the transaction "positively addresses Wall Street's concerns about the State's fiscal future by ensuring 30 years of substantial contributions to eligible State Retirement Systems from a source that has reliably produced revenue for 47 years. It also allows the State to achieve better portfolio performance by providing predictable liquidity. By dramatically improving the State's fiscal outlook, the transaction should lower the State's cost of borrowing from where it otherwise would be"[2]

Source: New Jersey Economic Development Authority School Facilities Construction Bonds, 2017 Series DDD Investor Presentation.
1 Burgos v. State, 222 N.J. 175 (2015).
2 http://www.state.nj.us/treasury/assets/docs/lottery/LotteryContribution%20OpEdFINAL.pdf.

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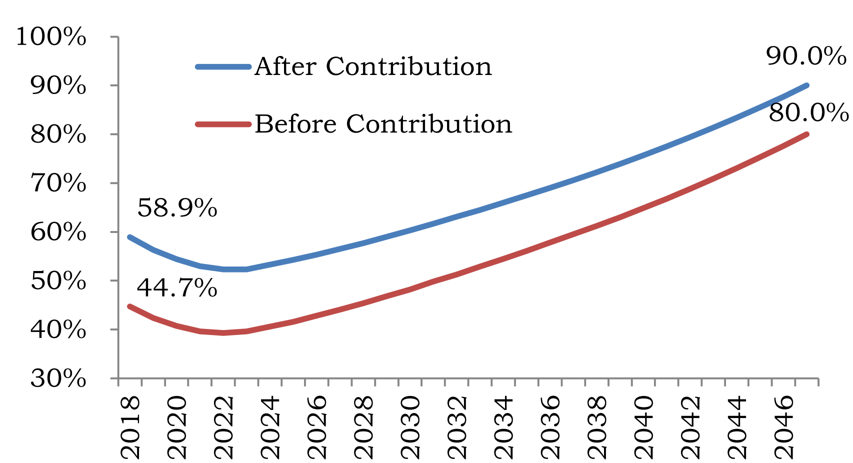
New Jersey Lottery Contribution (cont'd)

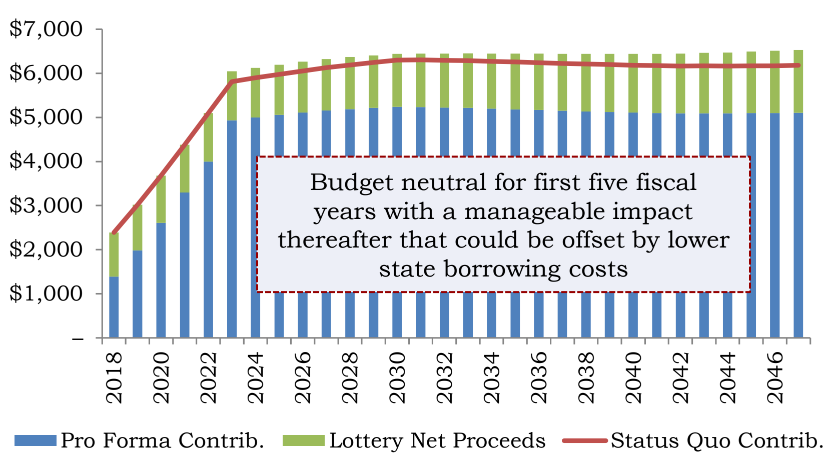
Transaction Overview

- Date: July 2017
- Asset: New Jersey Lottery Enterprise
- Structure: 30-year concession
- Transaction Size: $13.535 billion valuation(1)
- Beneficiaries: Teachers' Pension and Annuity Fund ("TPAF"), eligible members of the Public Employees' Retirement System ("PERS"), and eligible members of the Police and Firemen's Retirement System ("PFRS")

Impact of Projected Statutory Funded Ratio

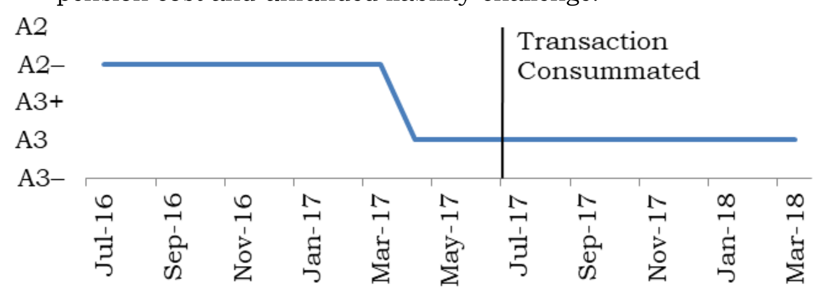


Impact on New Jersey Budget ($ millions)



Impact on New Jersey GO Credit Rating (Moody's)

- Moody's, August 11, 2017: "The most notable long-term effect of the transaction is the creation of an effective minimum, or "floor," on future pension contributions…[which] is slightly positive for the state's credit profile because it all but removes the prospect of a complete pension contribution holiday going forward…[which] is a major driver of [the state's] current pension cost and unfunded liability challenge."



Source: Bloomberg; New Jersey Economic Development Authority School Facilities Construction Bonds, 2017 Series DDD Investor Presentation; Moody's Investors Service.
1 The lottery will be revalued every five years. A lower valuation to result in a reduced credit against the State's ARC. A higher valuation to have no impact on the State's credit toward its ARC, thereby providing the pension plans with any upside.

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City of Jacksonville, FL ½ Penny Sales Tax Dedication

- In April 2017, the City of Jacksonville, Florida dedicated a ½ penny sales surtax, beginning no later than 2031, to its pension plans for 30 years or until they reach 100% funding, whichever comes first
  - — Prior to the transaction, the ½ penny sales surtax was being used for infrastructure purposes and was originally scheduled to sunset at the expiration of the program (no later than the end of 2030)
- Prior to the transaction, the City of Jacksonville's pension plans had combined unfunded liabilities of more than $3 billion and an aggregate funded ratio of approximately 54%
  - — Annual contributions to the plans have comprised nearly 20% of the City's operating budget
- The surtax provides a dedicated revenue stream for benefits owed in future years
  - — Although the stream consists of future revenues, it is accounted for today as a pension asset, thereby reducing the city's near-term contribution requirements and resulting in considerable savings between 2018 and 2030
- The transaction was enabled by legislation passed by the State of Florida,1 which required the City to take the following prerequisite actions before it could use the surtax for pension funding:
  - — Close defined benefit plans to new employees and instead provide a defined contribution plan
  - — Increase employee contributions to 10% versus 8%
  - — Re-amortize all unfunded liabilities over a period of 30 years
- To garner support for the transaction, the City made certain concessions to its workers, including:
  - — Three years of substantial salary increases after nine years of no increases
  - — One-time lump sum distributions of roughly 27.3% of pay in FY 2017

Source: Jacksonville City Pension Plans 2016 Actuarial Report; Jacksonville Pension Funds' Actuarial Impact Statement Reports. See wwww.coj.net/mayor/pension for more information.

1 Chapter 2016-146.

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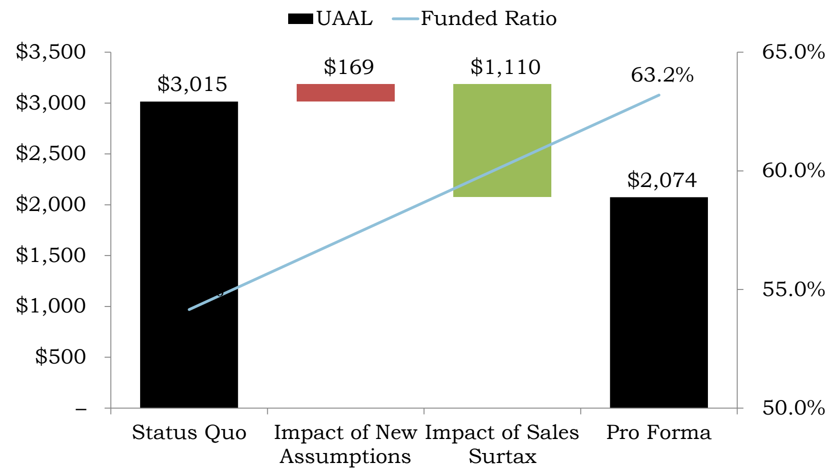
City of Jacksonville, FL ½ Penny Sales Tax Dedication (cont'd)

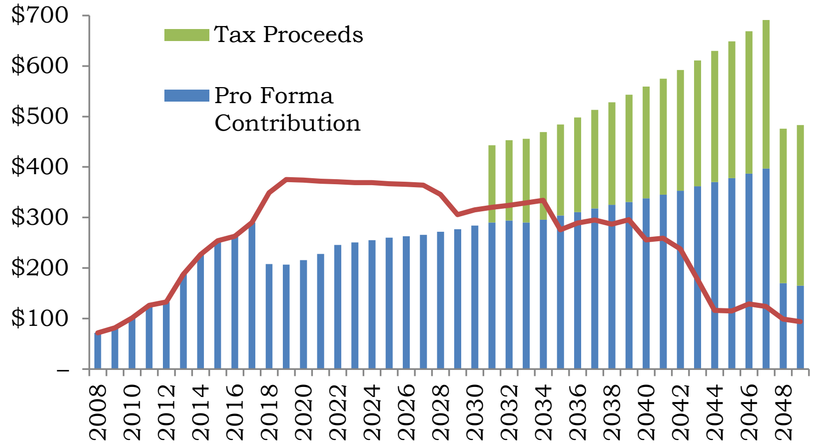
Transaction Overview

- Date: April 2017
- Asset: ½ penny sales surtax
- Structure: Pledge of tax stream from sunset of ½ penny infrastructure sales surtax (no later than January 1, 2031) to earlier of 30 years (2060) or date of full funding
- Transaction Size: Approx. $9.1 billion of undiscounted cash flows[1]
- Beneficiaries: Police and Fire Pension Fund ("PFPF"), General Employees' Retirement Plan ("GERP"), and Correction Officers' Retirement Plan ("CORP")

Impact on Pension Funds' UAAL and Funded Ratio

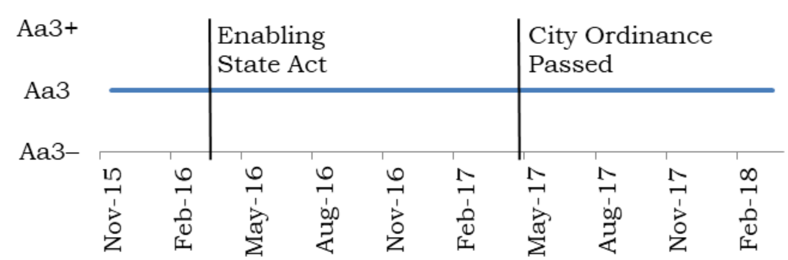


Impact on City Budget ($ millions)[1]



Impact on Special Revenue Credit Rating (Moody's)

- Moody's, May 17, 2017: "Jacksonville's reliance on future revenues…will continue to negatively impact our key credit metrics related to its pensions. On the other hand, the city will immediately begin shedding investment performance risk relative to the status quo as new employees with only defined contribution benefits grow as a proportion of the city's work force."



Source: Jacksonville City Pension Plans 2016 Actuarial Report; Jacksonville Pension Funds' Actuarial Impact Statement Reports; Pension Reform City Council Workshop Presentation, April 12, 2017; Moody's Investors Service.
1 Assumes projected 4.25% growth in sales tax revenue per City Council.

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City of Pittsburgh, PA Parking Tax Dedication

- In December 2010, the City of Pittsburgh, Pennsylvania dedicated a portion of its annual parking tax revenues to its pension plans through 2041
- The City was forced to do so by State Act 44-2009, which required a 50% aggregate funded ratio (compared to 34% at the time) to avoid forfeiting the City's plans and their assets to the state
  - Local political leaders were concerned that if the State took control of the pension plans, it would look to the City for incremental contributions
    - One such concern was that the State would reduce the investment return assumption for the plans, which would have caused annual contributions to increase by nearly $30 million
- State Act 44-2009 also mandated certain additional changes to all municipal pension plans in the state
  - Establishment of a revised benefit plan for newly hired employees
  - Revision to amortization schedules for unfunded actuarial accrued liabilities, as follows:
    - Actuarial gains/losses, increased from 15 to 20 years
    - Changes in assumptions, decreased from 20 to 15 years
  - Expansion of asset smoothing corridor for recognitions of gains and losses from 20% to 30%
  - Aggregation of local pension funds for administration and investment
  - Submission of a plan for administrative improvement

Source: 2016 Pittsburg CAFR; Ordinance 44-2010; City of Pittsburgh Pension Funds 2013 Summary Actuarial Valuation Report; City Council Public Hearing Presentation, July 29, 2010.

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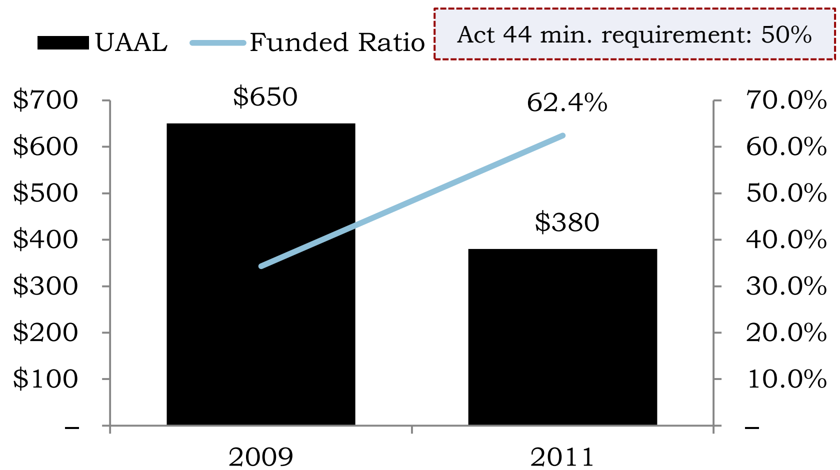
City of Pittsburgh, PA Parking Tax Dedication (cont'd)

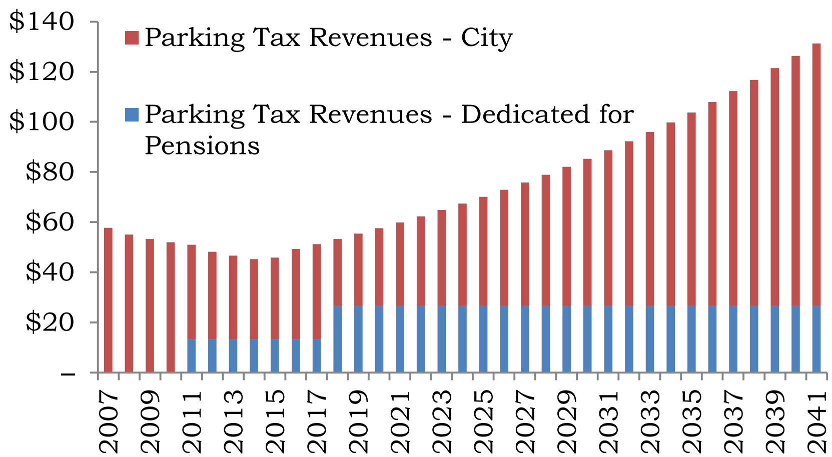
Transaction Overview

- Date: December 2010
- Asset: Parking tax ($13.4mm annually 2011-2017; $26.8mm annually 2018-2041)
- Structure: Dedication of parking tax revenues based on an annual schedule from 2011 through 2041 (full faith and credit)
- Transaction Size: $735,680,000 of undiscounted cash flows
- Beneficiaries: Municipal Pension Fund of the City ("Municipal Fund"), Policemen's Relief and Pension Fund of the City ("Policemen's Fund"), and Firemen's Relief and Pension Fund of the City ("Firemen's Fund")

Impact on Aggregate UAAL and Funded Ratio

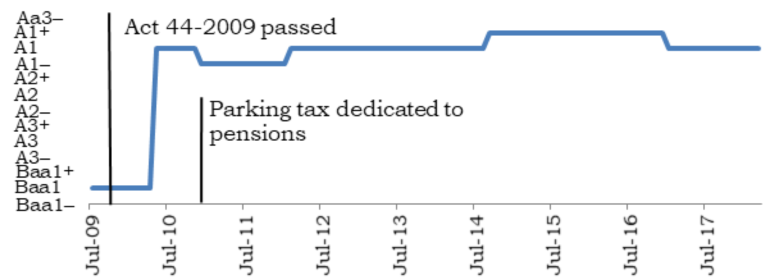


City Parking Tax Revenues ($ millions)[1]



Impact on City GO Credit Ratings (Moody's)

- Moody's, January 19, 2012: "The change in the outlook to stable from negative reflects improved funding of the city's pension funds, resulting in the avoidance of the city's forced entry into the Pennsylvania Municipal Retirement System (PMRS) as required by the Commonwealth's Act 44...this would have required the city to significantly increase its pension contributions over the near- to medium-term."



Source: Bloomberg; 2016 Pittsburg CAFR; Ordinance 44-2010; City of Pittsburgh Pension Funds 2013 Summary Actuarial Valuation Report; City Council Public Hearing Presentation, July 29, 2010.

1 Assumes parking tax revenue growth of 4% from 2017 through 2041. Per the City's 2018 Operating Budget, total parking tax revenues are forecast to increase by 4.0 percent each year through 2022.

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Queensland Motorways Concession

- In May 2011, the State of Queensland, Australia transferred Queensland Motorways Ltd. ("QML") for a period of 40 years to the Queensland Investment Corporation ("QIC") for the benefit of the state's defined benefit superannuation fund (the "DB Fund")
  - QML is an approximately 70 km toll road network, serving as a key East-West link in Southeast Queensland and a strategic connection to the Australian TradeCoast
  - QIC, owned by the Queensland government, was initially established to exclusively manage the state's DB Fund but has since become one of the largest superannuation managers in Australia
    - QIC's Global Infrastructure Group, on behalf of the DB Fund, built a team of investment professionals to assess and manage infrastructure assets directly. The group has over $9.5bn in assets under management and has made 12 direct investments in infrastructure projects to date
- Prior to the transaction, both the Queensland government and QML were struggling financially and the government was considering putting the project up for sale or lease
- At the same time, the DB Fund's actuary identified a $1.4bn excess of liabilities over plan assets
  - At that point, the government considered the QML/QIC transaction because it would balance the budget via an in-kind contribution while at the same time reducing any downside risks of a competitive bidding process and easing public opposition to a private concession
- After transfer of QML, QIC made operational improvements to the network (including three acquisitions of adjoining toll roads)
  - QIC later sold the network to a private consortium for $7.1bn, realizing nearly $4bn in value over cost

Source: Stanford Global Projects Center, "In-Kind Infrastructure Investments by Public Pensions: The Queensland Motorways Case Study", by Michael Bennon, Dr. Ashby H.B. Monk, and Young-Joon Cho, June 5, 2017.
Note: All $ in AUD.

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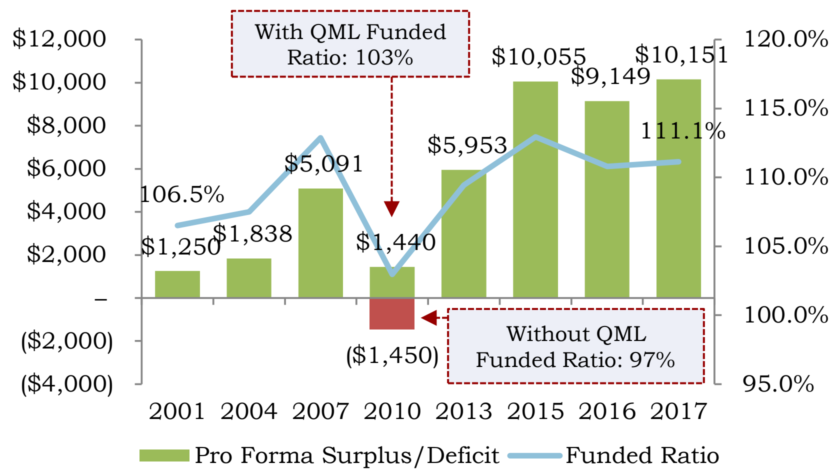
Queensland Motorways Concession (cont'd)

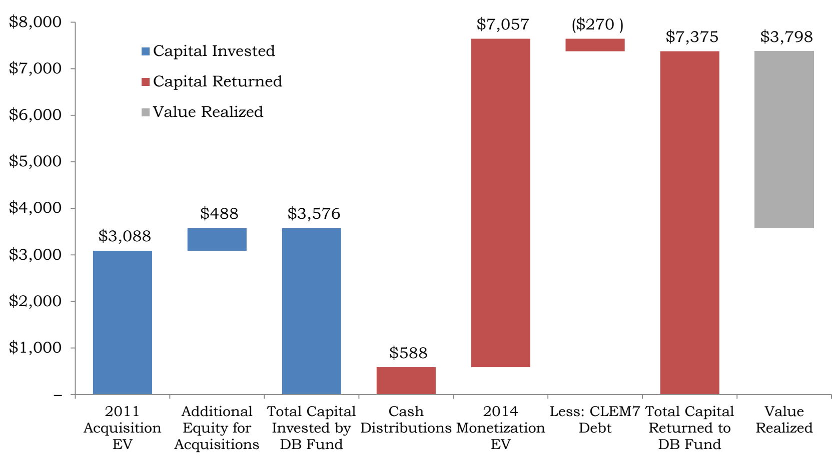
Transaction Overview

- Date: May 2011
- Asset: Queensland Motorways Ltd
- Structure: 40-year concession
- Transaction Size: $3.088bn valuation
  - QIC later sold QML to a private consortium in 2014 at a valuation of $7.057bn
- Beneficiaries: Queensland Investment Corporation

Impact on Plan Surplus and Funded Ratio ($ millions)

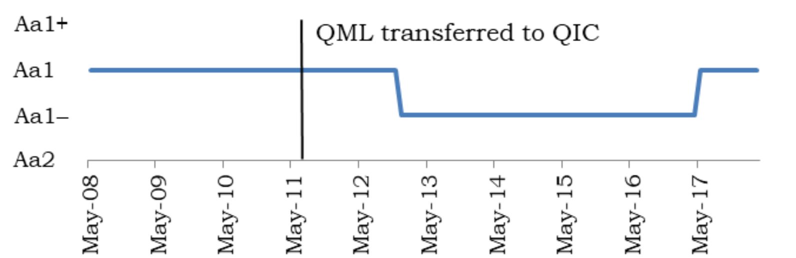


Value Realized from the QML Transaction ($ millions)



Impact on Queensland's Credit Rating (Moody's)

- Premier Anna Bligh: "It's a [transaction] that improves the state' finances, takes us closer to an AAA credit rating, strengthens the Government's superannuation scheme and protects the public interest"(1)
- Treasurer Andrew Fraser: "It strengthens the state's balance sheet and strengthens our claim to regain our AAA credit rating and it strengthens the state's superannuation scheme"(1)



Source: Bloomberg; Stanford Global Projects Center; QSuper Annual Reports and Actuarial Investigations; Moody's Investors Service.
Note: All $ in AUD.
1 ABC News, "Government to transfer Qld Motorways to QIC", November 25, 2010.

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Appendix B: Public Water Systems

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Overview of Public Water Systems in Connecticut

Connecticut's top 15 public water systems supply 66% of the population served by all of the approximately 2,500 systems operating in the State

- Of the top 15 public water systems in Connecticut, private operators charge 49% and 44% higher water rates for residential and commercial customers, respectively, than their municipality-operated peers
  - — Residential rates of Connecticut's largest private operators are 60% and 13% above those of MDC and RWA, respectively

Overview of Connecticut Public Water Systems ($ millions)

					Commodity Charges(2) (Per 100 Cubic Feet)		As of June 30, 2016(4)		
#	Public Water System	Principal City Served	% of Pop. Served(1)	Public / Private	Residential(3)	Commercial(3)	Net Debt	Net Assets Less Debt(5)	Change in Net Position(6)
1	RWA	New Haven	14%	Public	$3.942	$3.635	$541	$38	$8
2	MDC	Hartford	13%	Public	2.770	2.770	1,118	849	57
3	Aquarion - Main	Bridgeport	12%	Private	4.234	4.234	NM - Private		
4	Waterbury	Waterbury	4%	Public	2.520	2.520	29	144	(2)
5	Aquarion - Stamford	Stamford	3%	Private	3.361	3.361	NM - Private		
6	CT Water - Northwest	East Windsor	3%	Private	5.915	5.915			
7	New Britain	New Britain	3%	Public	2.921	2.921	13	42	1
8	Danbury	Danbury	2%	Public	1.586	3.000	21	126	3
9	Meriden	Meriden	2%	Public	4.440	4.440	57	81	(1)
10	Aquarion - Greenwich	Greenwich	2%	Private	4.234	4.234	NM - Private		
11	Bristol	Bristol	2%	Public	2.500	2.500	3	20	(0)
12	Manchester	Manchester	2%	Public	3.280	3.280	54	22	2
13	Southington	Southington	1%	Public	3.040	3.040	NA - Water Results Not Reported Seperately		
14	South Norwalk	Norwalk	1%	Public	2.753	2.753	80	16	(0)
15	Middletown	Middletown	1%	Public	2.910	2.910	NA - Water Results Not Reported Seperately		
	Total/Average Top 15		**66%**		**$3.360**	**$3.434**	**$1,917**	**$1,338**	**$68**
	Other (2,477 Additional Systems)		34%						
	Total		**100%**						

Average public and private residential rates are $2.969 and $4.436, respectively. Average public and private commercial rates are $3.070 and $4.436, respectively

1 Source: Connecticut Department of Public Health: Public Water System Lists. Includes community systems, non-transient non-community systems, and transient non-community systems.
2 Excludes service charges.
3 Source: Filings of public water systems. For comparability, rates shown exclude sewer rates. Assumes charge for 5/8" meter size for residential and 1" meter size for commercial.
4 Source: 2016 Comprehensive Annual Financial Reports of the systems or of the municipalities where the systems are located.
5 Net of accumulated depreciation and related debt outstanding.
6 May not include change in net position associated with tangential expenses, such as health benefits, liability insurance, and workers' compensation, which are reported in a separate fund, such as an "Internal Service Fund", on some of the municipalities' financial statements. Internal Service Funds are used to account for the financing of goods or services provided by one department or agency to other departments or agencies of the government and to other government units, on a cost-reimbursement basis.

Impact of Illustrative Rate Increase on Capitalization

The analysis below illustrates how a rate increase would impact the capital structures of MDC and RWA

Impact of Illustrative Rate Increase
($ millions except rates)

	MDC	RWA
Current Residential Rate	$2.770	$3.942
Average Private Residential Rate	$4.436	$4.436
% Rate Increase	60.1%	12.5%
Pro Forma Revenue	$406	$130
Less: Operating Expenses	(132)	(60)
Pro Forma EBITDA	$274	$70
Less: D&A	(31)	(20)
Less: Taxes/PILOTs	–	(8)
Less: Interest Expense	(34)	(27)
Pro Forma Net Income	$209	$16
Divide: ROE	8.0%	8.0%
Pro Forma Equity Value	$2,615	$204
Plus: Net Debt	1,118	541
Pro Forma Enterprise Value	$3,734	$745
Pro Forma Debt % of Capital	**30.0%**	**72.7%**

Source: MDC 2016 CAFR; RWA 2016 Annual Report.

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Comparable Private Water System Companies and Precedent Transactions

Comparable Private Water System Companies Analysis ($ millions, except per connection/capita metrics)

	Market Cap	Net Debt	TEV	EBITDA Margin	Leverage	EV / Rev.	EV / EBITDA	Total Customers	Population Served	Operating Metrics: Cost of Debt	Operating Metrics: Cash % of Rev.
American Water Works Co., Inc.	$15,829	$7,369	$22,906	59%	3.7x	6.9x	11.7x	3,312,000	15,000,000	4.6%	2.8%
Connecticut Water Service, Inc.	738	273	1,032	55%	4.8x	9.9x	18.1x	124,968	400,000	3.0%	8.0%
Middlesex Water Company	687	164	890	50%	2.5x	6.8x	13.6x	128,920	N/A	3.2%	2.1%
Artesian Resources Corporation	349	115	489	50%	2.8x	6.0x	11.9x	85,000	N/A	5.5%	0.3%
American States Water Company	1,942	361	2,341	41%	2.0x	5.3x	12.7x	259,000	N/A	6.2%	1.5%
The York Water Company	437	90	548	62%	3.0x	11.4x	18.3x	67,052	196,000	5.9%	0.0%
California Water Service Group	2,060	722	2,766	34%	3.2x	4.2x	12.3x	511,500	2,000,000	4.7%	4.3%
SJW Group	1,299	436	1,703	34%	3.4x	4.5x	13.4x	246,600	N/A	5.1%	2.0%
Aqua America, Inc.	6,393	2,076	8,438	23%	11.3x	10.5x	45.9x	972,265	3,000,000	4.1%	0.5%
Average				**45%**	**4.1x**	**7.3x**	**17.5x**			**4.7%**	**2.4%**
Median				**50%**	**3.2x**	**6.8x**	**13.4x**			**4.7%**	**2.0%**
Regional Water Authority[1]	N/A	541	N/A	48%	9.7x	N/A	N/A	118,800	430,000	4.8%	18.6%
Metropolitan District Commision[2]	N/A	1,118	N/A	48%	9.2x	N/A	N/A	101,599	390,887	2.6%	79.1%

Precedent Transactions Analysis ($ millions, except per connection/capita metrics)[3]

Acquirer	Target	Date	Purchase Price (TEV)	TEV / Rev.	TEV / EBITDA	TEV / Conn.	TEV / Pop.
Eversource	Aquarion	2017	$1,675	8.2x	18.8x	$7,283	$2,349
Connecticut Water	The Heritage Village Water Company	2016	21	11.2x	34.1x	4,253	N/A
Connecticut Water	The Avon Water Company	2016	40	8.2x	13.3x	8,354	N/A
Lehigh County Authority[4]	City of Allentown, PA Water Systems	2013	220	7.4x	22.6x	6,599	1,864
KKR & United Water[5]	City of Bayonne, NJ Water System	2012	150	N/A	N/A	12,500	2,273
Aqua America	American Water - Ohio	2012	116	3.1x	6.7x	1,973	N/A
EPCOR USA	American Water - New Mexico & Arizona	2011	470	5.2x	9.9x	2,691	N/A
JP Morgan & Water Asset Management	SouthWest Water Company	2010	427	2.0x	38.3x	3,286	928
Average				**6.5x**	**20.6x**	**$5,867**	**$1,854**
Median				**7.4x**	**18.8x**	**$5,426**	**$2,068**

Source: Bloomberg, CapitalIQ and company filings.
1 EBITDA for RWA represents operating income plus an addback for depreciation and amortization.
2 EBITDA for MDC represents change in net position of both governmental activities and business type activities with addbacks for interest expense and depreciation expense. Includes sewer operations and some electricity.
3 Financials per company filings, state regulatory reports, and select research reports. Note that where revenue and EBITDA figures were not directly available, figures have been estimated based on last publicly available information released prior to transaction.
4 50-year concession agreement. Purchase price represents upfront cash proceeds.
5 40-year concession agreement. Purchase price represents upfront cash proceeds.

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Connecticut Public and Private Water System Rate-Setting

While regional and municipal water utility rates are not regulated by any agency, private water system rates are regulated by the Connecticut Public Utilities Regulatory Authority ("PURA")

- Public water systems set their own water rates subject to a vote by the system board subsequent to a public hearing
  - Under Section 2-14 and Section 5-4 of the MDC Charter, the District Board determines whether MDC will increase its rates through an ordinance revision
  - Under Section 14 of Connecticut Special Act 77-98, the Representative Policy Board votes on raising existing water rates for RWA
  - While there is no formal cap on rate increases, the rates *"shall be established so as to provide funds sufficient in each year"* to cover the systems' expenses, including debt service on bonds[1]
- Private water system rates are submitted for approval by PURA under CGS 16-19 and 16-19e through a general rate case filing
- In recent years, however, private water system base rates have remained constant, and rates have only increased through a semi-annual adjustable Water Infrastructure Conservation Adjustment ("WICA") surcharge
  - The purpose of the WICA legislation is to ensure that private water systems are incentivized to invest in and maintain capital-intensive infrastructure
  - Under CGS 16-262w, the WICA is *"calculated as a percentage, based on the original cost of completed eligible projects multiplied by the applicable rate of return, plus associated depreciation and property tax expenses related to eligible projects […] as a percentage of the retail water revenues"*
  - The WICA surcharge permits rate increases so as to achieve a maximum 5% rate of return per year—or 10% between general rate case filings—on eligible infrastructure projects

1 CT Special Act 77-98 Section 14 concerning the South Central Connecticut Regional Water Authority.